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Supreme Court, U.S.
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No. ___

IN THE SUPREME COURT OF THE UNITED STATES
OCTOBER TERM 1986

MEDICAL INCORPORATED,

Petitioner,

vs.

THE REGENTS OF THE
UNIVERSITY OF MINNESOTA,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE MINNESOTA COURT OF APPEALS

PETITION FOR A WRIT OF CERTIORARI

HAROLD D. FIELD, JR.
*NANCY C. DREHER
ROBERT P. THAVIS

Suite 1500
100 South Fifth Street
Minneapolis, Minnesota 55402
Telephone: (612) 337-1500
Counsel for Petitioner

Of Counsel:

LEONARD, STREET AND DEINARD
Minneapolis, Minnesota
*Counsel of Record

QUESTIONS PRESENTED FOR REVIEW

1. The parties' heart valve patent licensing agreement requires the grant-back of Petitioner's "entire right, title and interest" to an improvement patent. The question presented is whether a license agreement containing such a provision is invalid as a misuse of patent.

2. The parties' heart valve patent licensing agreement was construed at trial as requiring Petitioner to pay Respondent royalties on all valves sold by Petitioner, and there was evidence establishing that this requirement was a condition of the license agreement. The question presented is whether a license agreement containing such a provision is invalid as a misuse of patent.

3. Whether a 1975 California Federal District Court decision narrowly construing the licensed patent, including specific design elements at issue here, should have been given collateral estoppel effect.

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OPINIONS BELOW

The opinion of the Minnesota Court of Appeals from 382 N.W.2d 201 (Minn. App. 1986) is reproduced at A-11-60. The Order of the Minnesota Supreme Court denying the Petition and Conditional Cross-Petition for Review is reproduced

at A-61-62. The Order of the Minnesota Court of Appeals denying petitioner's motion for a stay and directing entry of judgment is reproduced at A-63-65. The judgment is reproduced at A-66-67. The Findings of Fact, Conclusions of Law and Order for Judgment of the Dakota County District Court is reproduced at A-1-10.

JURISDICTION

The judgment of the Minnesota Court of Appeals in this case was entered May 22, 1986, following Minnesota Supreme Court denial of Petitioner's Petition and Respondent's Conditional Cross-Petition for Review. This case alleges violations of (i) federal law governing patents and patent misuse, and (ii) the Supremacy Clause, Article VI of the U.S. Constitution.

This Court has jurisdiction pursuant to 28 U.S.C. §1257 to review federal issues in "final judgments . . . rendered by the highest court of a state in which a decision could be had. . . ." Both the patent misuse issue and the collateral estoppel issue raise federal questions. Blonder-Tongue Labs. v. University Foundation, 402 U.S. 313 (1971); Parsons Steel v. First Alabama Bank, ____, U.S. ____, 88 L.Ed.2d 877 (1986). To the extent the judgment of the Minnesota Court of Appeals is final as to the federal issues involved (or some of them), it is reviewable by Writ of Certiorari from this Court. A question does exist as to that finality, as it relates to some of those issues. See, infra, at 11-13.

STATUTORY PROVISIONS INVOLVED

Patent misuse is a judicially developed doctrine in the federal common law, and directly involves no statutory provisions. Collateral estoppel, as it relates to decisions of a federal court on a federal question, is a doctrine arising under the Supremacy Clause, Article VI of the United States Constitution, and the Full Faith and Credit Act, 28 U.S.C. § 1738.

STATEMENT OF THE CASE

Respondent the Regents of the University of Minnesota ("University") sued Petitioner Medical Incorporated ("Medical") for royalties and specific performance claimed due under a patent license agreement dated October 19, 1971, and amended November 20, 1975. That agreement licensed Medical to mar-

ket artificial heart valves under U.S. Patent No. 3,476,143, issued November 4, 1969 (the "Kaster patent"). The University claimed (i) that the heart valves Medical sold fell within the scope of the Kaster patent, (ii) that the license agreement required Medical to pay the University royalties on all heart valves it sold, whether or not covered by the Kaster patent, and (iii) that a grant-back clause in the license agreement required Medical to transfer title to the University on U.S. Patent No. 4,240,161, issued to Medical December 23, 1980 (the "Huffstutler Patent").

Medical Answered, inter alia, that it owed the University no royalties because the heart valves it sold fell outside the scope of the Kaster patent, and pointed to a 1975 California Federal

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District Court decision in a patent infringement action brought by the University (as patentee) and Medical (as licensee), Washington Scientific Industries, Inc., et al. v. Shiley Laboratories, Inc., 187 U.S.P.Q. 236 (C.D. Cal. 1975) (the "Shiley decision"), in which the Kaster patent was narrowly construed. Medical also argued that the University's claim that the license agreement required Medical to (i) grant back improvement patents, and to (ii) pay royalties on all products sold, whether or not covered by patent, attempted to construe the license agreement more broadly than the parties intended. Finally, Medical argued that if the license agreement were construed as broadly as the University claimed, the agreement would be void as a misuse of patent.

The trial, held in Dakota County, Minnesota, District Court, involved construction of the license agreement, but was dominated by questions of federal law. Two central issues in the case were: (i) whether the University was guilty of patent misuse by improperly attempting to extend the monopoly granted by the Kaster patent; and (ii) whether the heart valves manufactured and sold by Medical fell within the scope of the Kaster patent. In answer to special interrogatories, the jury found that: (1) all three of Medical's current artificial heart valve products (the Lillihei-Kaster, the Omniscience, and the Omnicarbon valves) are covered by the Kaster patent; (2) the license agreement requires Medical to pay royalties to the University on all of Medical's heart valves, whether or not

covered by any patent; (3) the Huffstutler patent is an improvement patent covered by the grant-back clause in the license agreement; and (4) Medical owes the University approximately three million dollars in past due royalties and interest.

Based on the jury findings, the trial court ordered Medical to pay past royalties, to assign its Huffstutler patent to the University, and to pay the University royalties thereunder until December 22, 1997, the date the Huffstutler patent expires (some 11 years beyond the expiration of the Kaster patent).

Medical appealed to the Minnesota Court of Appeals, claiming inter alia that the license agreement, as construed, was void as a misuse of patent, and that it was error not to give col-

lateral estoppel effect to the Shiley decision, which severely restricted and narrowly construed the scope of the Kaster patent.

On appeal from the trial court's Order, the Minnesota Court of Appeals found that the total-sales royalties provision, requiring Medical to pay the University royalties on all products sold, whether or not covered by the Kaster patent, did not constitute patent misuse. Consistent with this Court's decision in Brulotte v. Thys Co., 379 U.S. 29 (1964), the Minnesota Court of Appeals reversed the trial court construction of the license agreement as requiring Medical to pay royalties until the expiration of the Huffstutler patent in 1997, holding that Medical's obligation to pay royalties under the license agreement terminates on the date that

the Kaster patent expires. The Court then remanded to the trial court for findings as to whether the assignment of the Huffstutler patent substantially extended the scope of the Kaster patent based on a "technical comparison of the Huffstutler patent with the Kaster patent." A-49. Finally, it affirmed the trial court's refusal to give collateral estoppel effect to the decision in Shiley, with the result that the Kaster patent was narrowly construed in a Federal District Court infringement action, but broadly construed in a subsequent state court licensing dispute.

Medical's Petition and the University's Conditional Cross-Petition for Review by the Minnesota Supreme Court were denied. The Minnesota Court of Appeals judgment was then entered,

and the case remanded to the trial court for a determination of whether the assignment of Medical's Huffstutler patent to the University substantially extends the scope of the University's Kaster patent.

Because of the remand, a question exists as to whether the Minnesota Court of Appeals judgment is final for purposes of review by this Court. Ordinarily to be final and reviewable a state court judgment must leave only ministerial acts to be performed on remand. Department of Banking v. Pink, 317 U.S. 264, 267 (1942); Houston v. Moore, 3 Wheat. 433, 434 (1818); San Diego Gas & Elec. Co. v. San Diego, 450 U.S. 621, 632-33 (1981). The instant remand would appear to be non-ministerial, since whatever the trial court's finding on remand, it would at

least be relevant to the federal question of patent misuse, which should be decided upon a review of the license agreement as a whole. Continental Ore Co. v. Union Carbide Co., 370 U.S. 690, 699 (1962). Moreover, Medical maintains that a finding on remand that assignment of the Huffstutler patent substantially extends the scope of the Kaster patent would establish patent misuse by the University. The non-ministerial nature of the remand, however, is uncertain, having never been formally decided.

The finality rule has also been the subject of certain exceptions by which this Court has found finality even though other proceedings are contemplated. See, e.g., Cox Broadcasting Corp. v. Cohn, 420 U.S. 469, 480 (1975). The question of whether a Petition for Writ of Certiorari from a

final decision following remand is timely, where a writ might have been earlier available, is sufficiently unclear that Medical thought it "best to seek review of the first judgment whenever its finality is a reasonable possibility, and, if unsuccessful, to bring up the second judgment later." R. Stern, E. Gressman, S. Shapiro, Supreme Court Practice, 6th Ed. 1986, § 3.10 at 133. Petitioner therefore petitions for Writ of Certiorari to obtain review by this Court now, should review now be available.

REASONS FOR GRANTING WRIT

This case presents important questions of federal law governing patent misuse, and of the effect to be given federal court decisions construing the scope of a patent.

A) THE MINNESOTA COURT OF APPEALS' EXPRESSION OF FEDERAL LAW OF PATENT MISUSE IS IN CONFLICT WITH THE DECISIONS OF THIS COURT.

The federal law governing attempts to extend a patent monopoly by use of grant-back and total-sales provisions was misapplied by the lower courts; the Minnesota Court of Appeals decision is in direct conflict with decisions of this Court in Brulotte v. Thys Co., supra, and Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100 (1969). Granting petitioner's requested writ of certiorari is important to prevent continued misapplication by Minnesota state courts of federal patent law. In addition, this case presents this Court with an opportunity to clarify and harmonize its holdings on whether, and when, grant-back and total-sales clauses constitute patent misuse.

1. This Court Should Review the Lower Court Ruling Upholding A Grant-Back Provision Covering Improvement Patents.

The license agreement was construed below to require Medical to assign its "entire right, title and interest" in its Huffstutler patent to the University, as an improvement patent to the Kaster patent. The Kaster patent issued in 1969, and will expire in November, 1986. By requiring Medical to assign its "entire right, title and interest" to the Huffstutler patent to the University (as opposed to the transfer of a non-exclusive license), however, the license agreement gives the University patent protection until 1997, the year the Huffstutler patent expires.

In Brulotte v. Thys Co., the Supreme Court held that it is unlawful per se for a patentee "to project . . .

royalty payments beyond the life of the patent." 379 U.S. at 33. The Court relied on its earlier decision in Scott Paper Co. v. Marcalus Co., 326 U.S. 249, 256 (1945), wherein it had stated that "any attempted reservation or continuation in the patentee or those claiming under him of the patent monopoly, after the patent expires, whatever the legal device employed, runs counter to the policy and purpose of the patent laws."

Since Brulotte, the courts have repeatedly refused to enforce any license provision which directly or indirectly attempts to extract a royalty beyond the expiration date of the licensed patent. See, e.g., Pitney Bowes, Inc. v. Mestre, 701 F.2d. 1365, 1371 (5th Cir. 1983); Phillips Screw Co.

v. Amtel, Inc., 465 F. Supp. 3, 5-6 (D. Mass. 1978); Shields-Jetco, Inc. v. Torti, 314 F. Supp. 1292, 1303 (D.R.I. 1970); Finnegan v. Spiegl Farms, Inc., 44 Cal. Rptr. 645, 647 (Cal. App. 1965). The licensee is not required to prove that the licensor conditioned the grant of the license on the agreement to pay royalties beyond the term. Leesona Corp. v. Varta Batteries, Inc., 522 F. Supp. 1304, 1342 (S.D.N.Y. 1981); Veltman v. Norton Simon, Inc., 425 F. Supp. 774, 775 (S.D.N.Y. 1977). The mere presence of the provision in the contract is sufficient to establish misuse.

The term of the commitment to pay royalties cannot be enlarged to the expiration of the term of any improvement patent, since to do so would con-

stitute precisely the type of "legal device" which Scott Paper Co. referred to and Brulotte condemned. This exact issue was dealt with in Perbal v. Dazor Manufacturing Corp., 436 S.W.2d 677, 690 (Mo. 1968), wherein the Missouri Supreme Court held that if a patent license agreement were construed as requiring payment of royalties during the term of improvement patents, the court would be "compelled to find a misuse of the [licensed] patents within the meaning of the Brulotte and Scott cases."

Although here the Minnesota Court of Appeals, relying on Brulotte and Perbal, reversed the trial court on the question of whether the license agreement required royalties under the Kaster patent to be paid only until the Kaster patent expires, for some reason it did not explicitly address the duration

issue as it relates to improvements. The possibilities are three: one, that the Court implicitly decided that duration was not a problem; two, that the Court in fact remanded for a decision on duration as well as scope; and three, that the Court simply failed to address the question. What is clear is that the Court has assumed the assignment is required. There is thus no escape from the proposition that an assignment of title seeks to accomplish indirectly that which this Court has expressly ruled in Brulotte may not be done directly -- expansion of the temporal scope of the Kaster patent.

In asserting the propriety of its grant-back clause, the University has consistently relied on this Court's decision in Transparent-Wrap Machine Corp. v Stokes & Smith Co., 329 U.S. 637

(1947) ("Trans-Wrap"). In that case this Court decided, by a 5-4 margin, that a grant-back requirement in a patent license which required the licensee to assign back title to improvement inventions was not illegal per se, but was only enforceable if reasonable when made.

The continuing validity of Trans-Wrap, in light of Brulotte, and the decisions of this Court in Zenith Radio Corp. v. Hazeltine Research, Inc. supra, and Blonder-Tongue Labs. v. University Foundation, supra, has been repeatedly questioned. Commentators have tended to either limit the rule of Trans-Wrap, or question it outright. See, Stedman, Acquisition of Patents and Know-How by Grant, Fraud, Purchase and Grant-Back, 28 U. Pitt. L. Rev. 161, 169 (1969) ("The case, in its carefully limited

language and its application to some rather special facts, provides little comfort for the devotee of grant-backs."); C. Bowman, Patent and Antitrust Law 232 (1973); Chevigny, The Validity of Grant-Back Agreements Under the Antitrust Laws, 34 Fordham L. Rev. 569, 592 (1966); Comment, The Validity of Grant-Back Clauses in Patent Licensing Agreements, 42 U. Chi. L. Rev. 733 (1975); 2 Rosenberg, Patent Law Fundamentals ¶ 16.02[2], at 16.26, 16.26.1 (2d. ed. 1984). Accepting certiorari would offer the Court an opportunity to address the continuing validity of Trans-Wrap, particularly in light of the Court's later decisions in Brulotte and Zenith. Moreover, it would afford the Court an opportunity to limit Trans-Wrap to its facts, and at the same time clarify, for both federal and state

courts, when a grant-back provision is reasonably made, and when it is not.[1]

Finally, the courts below incorrectly applied the rule of Trans-Wrap:

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1 Petitioner believes the Court declined to adopt a per se rule in Trans-Wrap because that license agreement was made in the context of the sale of a business which the parties contemplated would revert to the licensee at the end of a ten-year term, or any renewal term. Since the seller/ licensor would receive back his business complete with patent improvements to it, yet the licensee could at any time extend the contract term and avoid liability for further royalties, the grant-back provision was in both parties' best interests. This Court's decision appears predicated on that fact, and on its conclusion that "the effect on the public interest would seem to be the same whether the licensee or the licensor owns the improvement patents." Id. at 640. In short, the particular grant-back provision in Trans-Wrap was permitted because it harmed no one and benefitted both parties.

That is not the case here, however. The evidence at trial, and even a cursory review of the license agreement, clearly establish that the benefits of the grant-back clause flow to the University alone. This case is properly distinguishable from Trans-Wrap, and this Court should so clarify, to limit any "Trans-Wrap exception" from growing too broad.

the evidence at trial clearly established that the grant-back provision here was not reasonable when made, but was instead a naked attempt by the University to improperly extend its patent monopoly, both as to duration and as to scope. Review of the decision below would allow the Court to correct that misapplication of Trans-Wrap.

Petitioner urges the Court to grant its Petition for Writ of Certiorari, to clarify and harmonize its decision in Trans-Wrap with those in Brulotte and Zenith.

2. This Court Should Review The Lower Court Ruling Upholding The Total-Sales Royalty Provisions of the License Agreement.

Patent misuse is always to be determined by a review of the agreement as a whole, and not merely isolated provisions. Continental Ore Co. v. Union Carbide Co., 370 U.S. at 699. Although

petitioner believes the license agreement at issue here constitutes patent misuse by virtue of its grant-back clause alone, the agreement also contains an improper total-sales royalty provision. According to the jury, that provision requires Medical to pay the University royalties on every heart valve Medical sells, whether or not covered by the licensed patent; such a provision constitutes misuse of patent under the decisions of this Court.

In Zenith Radio Corp. v. Hazeltine Research, Inc., supra, this Court held that misuse inheres in the grant of a patent license conditioned on the payment of royalties on unlicensed products where such an obligation was a condition of the grant and was not for the mutual convenience of the parties. Zenith and its progeny make clear that misuse

exists where the licensee shows that a commitment to pay on unpatented products serves no convenience of the parties, is not necessary to facilitate the administration of the license agreement, or does not inure to the licensee's economic benefit. Zenith, 395 U.S. at 135-37. See, note, Total-Sales Royalties Under the Patent-Misuse Doctrine: A Critique of Zenith, 76 Mich. L. Rev. 1144, 1158-59 (1978). Misuse can be established through proof that the licensor had a practice of licensing only on a total-sales basis, offered only one alternative, ignored or overrode licensee protests, or rejected reasonable alternatives advanced by the licensee. Id. The licensee need not present evidence to support a "direct charge of coercion". Beckman Instruments, Inc. v. Technical Develop-

ment Corp., 433 F.2d 55, 60 (7th Cir. 1970). If the licensee desires a "patent coverage only" license, the licensor must provide it or be guilty of misuse. 76 Mich. L. Rev. at 1158.

The evidence at trial established that the total-sales royalty provision here was not made for ease of administration, but was instead a condition of the grant of the license. This was not a license, like that in Zenith, covering a multiplicity of patents with the manufacturer of a multiplicity of products. Convenience could have in no way affected any promise to pay royalties on Medical's unpatented valves. Moreover, testimony at trial revealed that in negotiating the license agreement the University required the use of its standard language, which called for payments of royalties on "each and

every" heart valve. T. 275-76, 278, 301-03, 310-11, 609-13, 641-43. (Testimony of G. Willard Fornell, the University's Patent Administrator).[2]

The testimony also revealed that in 1975, Medical objected to paying royalties on a heart valve it believed not covered by the Kaster patent, but the University overrode Medical's protestations and offered only one alternative, payment of royalties regardless of

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[2] Charles B. Andrews, counsel for Medical's principal, testified the agreement did not require royalties to be paid on all heart valves. T. 1520-22, 1547-48, 1557-58, 1714-15, 1820-21. The jury, however, obviously rejected that testimony in its finding that the agreement so provided.

patent coverage.[3] Further, the University argued at trial that the 1975 amendment to the license agreement, (the interpretation of which was also disputed at trial), was evidence that Medical agreed to the University's position that royalties were to be paid on each and every valve, regardless of whether covered by the Kaster patent. T. 50-52, 3042-43, 3046-50, 3053, 3072-73, 3167-69, 3172, 3178-79, 3186, 3209-10; Exhibit 68B.

These activities establish misuse as a matter of law. Glen Manufacturing, Inc. v. Perfect Fit Industries, Inc.,

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[3] In footnote 3 of its opinion, A-47, the Minnesota Court of Appeals reasoned that since no one could forsee that the Shiley decision would limit the scope of the Kaster patent, it was only during the 1975 re-negotiations that the University could have "conditioned" the license on payment of royalties on uncovered products. Even assuming that argument is true, however, the evidence is that University did precisely that during the 1975 negotiations.

324 F. Supp. 1133, 1137 (S.D. N.Y. 1971) (the court found it misuse to condition license grants on the acceptance of a total-sales royalty provision where the royalty structure was unnecessary and for the sole benefit of the plaintiff, and the licensor had a pattern of issuing only total-sales royalty licenses); Chandler v. Stern Dental Laboratory Co., 335 F. Supp. 580, 583 (S.D. Tex. 1971) (the court found the coupling of an all-sales royalty provision with a grant-back provision on improvement patents, the same provisions as present here, to itself be evidence sufficient to prove patent misuse); Reich v. Reed Tool Co., 582 S.W.2d 549, 554 (Tex. Civ. App. 1979), cert. den., 446 U.S. 946 (1980) (the court rejected licensor's argument that the licensee agreed to the provision voluntarily because it was anxious

to get into the business, and found the license agreement unenforceable as a matter of law); Duplan Corp. v. Deering Milliken, Inc, 444 F. Supp. 648 (D.S.C. 1975), aff'd in part and rev'd in part, 594 F.2d 979 (4th Cir. 1979), cert. den. sub nom. Ateliers Roannois de Constructions Textiles v. Duplan, 444 U.S. 1015 (1980) (the court found the licensee under no duty to request a "patent coverage only" provision where licensor had a practice of licensing on a package basis and treated the terms of its standard licensing package as non-negotiable).

The Minnesota Court of Appeals failed to properly apply the decisions of this Court, however, and found the total-sales royalty provision valid. It limited Zenith's applicability to where a patent licensor (i) insists on royal-

ties on merchandise clearly known not to be covered by the patent, and (ii) rejects proposals to pay only for use. A-46. That is not, and should not be, the reading given to Zenith, nor should it be the law governing total-sales royalty provisions.

Clarification of and leadership in the law of patent misuse must come from this Court. This Court should grant the requested writ of certiorari to clarify, for both federal and state lower courts, when the use of total sales royalty provisions constitutes patent misuse.

B. THE MINNESOTA COURT OF APPEALS' REFUSAL TO CREDIT THE PRIOR FEDERAL DISTRICT COURT DETERMINATION OF THE SCOPE OF THE KASTER PATENT VIOLATES THE SUPREMACY CLAUSE OF THE UNITED STATES CONSTITUTION.

A second fundamental issue at trial was the scope of the Kaster patent, the subject of the licensing agreement. At

trial, Medical argued that the Shiley decision determined the scope of the Kaster Patent. That decision, 187 U.S.P.Q. at 236 (Bench Exhibit 2005), found the Kaster patent to be (i) a very narrow patent in a very crowded field, (ii) not a pioneer patent, and (iii) confined to a heart valve which has four features, none of which were present in Shiley's "Bjork-Shiley" valve. As a consequence of those findings, the University and Medical lost the patent infringement action. The University later brought the instant suit, claiming that Medical's three heart valves were covered by the Kaster patent, even though it stipulated that all three valves lacked two of the four features identified in the Shiley decision (no back-flow when the disc is in the closed position and a fixed axis of rotation

for the disc. T. 4100-01). Medical argued that the University was bound by the Shiley determination of the scope of the Kaster patent, and was collaterally estopped from claiming that the Kaster patent covered any of Medical's three heart valves.[4]

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[4] The University responded that since only two of the four differences between the Kaster patent and the Bjork-Shiley valve were also differences between the Kaster patent and Medical's valves, collateral estoppel would not apply. That argument is incorrect. Where, as here, the earlier judgment was based upon matters litigated on alternative grounds, either of which would have been adequate to control, the judgment is determinative on both grounds. Restatement (Second) of Judgments, §27, at i, illus. 16; Goblirsch v. Western Land Roller Co., 246 N.W.2d 687, 691-692 (Minn. 1976); 1B Moore's Federal Practice ¶0.443[4], at 778 (1982). This rule is illustrated in the patent context in Overhead Door Corp. v. Whiting Roll-up Door Manufacturing Corp., 215 U.S.P.Q. 428, 435, (W.D.N.Y. 1981) where the court said that alternative grounds for a finding of non-infringement were both necessary to the earlier decision and, therefore, binding on the patentee in the later action.

The courts below erred in refusing to credit the judgment of the California Federal District Court, and in instructing the jury that the Kaster patent need not be read literally, and that the Shiley decision should be ignored in deciding the issue of coverage.

As a result, the patent was construed by the jury in the instant case as having a different (and much broader) scope than the scope given the Kaster patent in the Federal District Court infringement action. That is inarguable error; scope is scope, and a patent's scope cannot change over time or circumstances.

That error gives rise to a federal question, on two bases. First, it is federal law which grants a patent monopoly; a state court has now permitted a claimant to enlarge that monopoly, in

violation of federal law. If the lower court judgment stands, it will stand for the proposition that a licensee cannot successfully protect his license against an infringer, yet must continue to pay royalties on the unprotectible license. That is an improper enlargement of a patent monopoly.

Second, although state law determines whether a Federal District Court decision should be given collateral estoppel effect in a state court, whether that state law was applied correctly is a federal question under the Supremacy Clause of the U.S. Constitition, and subject to this Court's review. Indeed, this Court is the only federal court which may review such an error. In Parsons Steel v. First Alabama Bank, ___ U.S. ___, 88 L.Ed. 2d 877 (1986), this Court recently held

that the only federal court review of a state court decision not to give collateral estoppel effect to a prior federal court judgment is on "certiorari from this Court." 88 L.Ed. 2d at 885. That sole remedy makes it especially important that this Court grant certiorari here, to ensure that the lower court refusal to give collateral estoppel effect to the Shiley decision, in violation of Minnesota law of collateral estoppel, does not go entirely unchecked.

The Minnesota Court of Appeals did err in applying Minnesota law of collateral estoppel. Under Minnesota law the elements necessary to find collateral estoppel are (1) that the issues are identical in both cases, (2) that the issue was actually litigated and necessarily decided in the earlier pro-

ceeding, (3) that the person against whom the estoppel is asserted was a party to the prior proceedings, and (4) that there was a final judgment on the merits. Miller v. Northwestern National Insurance Co., 354 N.W.2d 58, 61 (Minn. App. 1984). All four elements are reflected in the trial record.

First, the issue of the scope of the Kaster patent was identical in both cases. As the court noted in Overhead Door Corp. v. Whiting Roll-up Door Manufacturing Corp., 215 U.S.P.Q. 428, 433 (W.D. N.Y. 1981) (citing Molinaro v. Sears, Robuck & Co., 478 F. Supp. 818, 821-22, (S.D. N.Y. 1979)), for collateral estoppel to apply, "it is not necessary for the second accused device to be the exact same device as was previously found non-infringing." The scope of a patent must be the same

whether it is defined in state court or in federal; scope cannot change with forum. Since the Medical valves differ from the Kaster patent in the same way that the Bjork-Shiley valve differed from the patent, the scope issue presented is identical.

Second, the issue was actually litigated and necessarily decided in the earlier proceeding. The Shiley court plainly rested its decision of non-infringement on each of four features it found in the Kaster patent which were not present in the Bjork-Shiley valves. Two of these features were lack of back-flow and a fixed axis of rotation of the disc. The Minnesota Court of Appeals incorrectly concluded that those two features were not essential to the Shiley court's decision, and that therefore collateral estoppel would not

apply. That conclusion makes two errors. While the Shiley court discussed two further limitations, it relied upon the back-flow and moving pivot axis features to distinguish the Bjork-Shiley valve from the Kaster patent claims. Bench Exhibit 2005. Moreover, as noted supra, at 33 n. 4, a judgment defining the scope of a patent, like a legal description of real property, is necessary in its entirety; a change in any border changes the scope as a whole. Overhead Door Corp. v. Whiting Roll-up Door Manufacturing Corp., supra.

Third, the University was a party in the prior proceedings, as was Medical. Accordingly, the University is bound by the decision as to the scope of the Kaster patent rendered in that case. Blonder-Tongue Labs. v. University Foundation, supra. Blounder-Tongue

held that collateral estoppel applies to claims of validity; it should apply equally to claims of scope.

Fourth, the decision in Shiley was a final judgment on the merits. The parties received a written opinion from which they chose not to appeal. The judgment then became final and determinative. Restatement (Second) of Judgments, §13 (1980).

It was state law error, and a violation of the Supremacy Clause of the United States Constitution, for the courts below to refuse to give collateral estoppel effect to the Federal District Court decision in Shiley. To have done so would have been to properly conclude that Medical's heart valves could not fall within the scope of the Kaster patent, because they differed from the Kaster patent in two identical

ways as the valve found to be non-infringing in Shiley.

It is important that this Court hear and decide the collateral estoppel issue, as well as the patent misuse issues, to give meaning to its patent misuse decision, to keep Minnesota courts from continuing to violate the Supremacy Clause, and to avoid acquiescing to a rule which would mandate unnecessary relitigation of myriad issues in both federal and state courts.

CONCLUSION

For the foregoing reasons, the Petition for a Writ of Certiorari to the

Minnesota Court of Appeals should be granted.

Respectfully submitted,

By _____
HAROLD D. FIELD, JR.
*NANCY C. DREHER
ROBERT P. THAVIS

Suite 1500
100 South Fifth Street
Minneapolis, Minnesota 55402
Telephone: (612) 337-1500

Attorneys for Petitioner

Of Counsel:
LEONARD, STREET AND DEINARD
* Counsel of Record

APPENDIX

STATE OF MINNESOTA — DISTRICT COURT

COUNTY OF DAKOTA — FIRST JUDICIAL DISTRICT

Court File No. 94170

The Regents of the University of Minnesota, Plaintiffs, vs. Medical Incorporated, Defendant.	)	FINDINGS OF FACT CONCLUSIONS OF LAW AND ORDER FOR JUDGMENT

The above-entitled matter came on for trial to the Court, with a jury, from October 15 through November 30, 1984, at the Dakota County Government Center in Hastings, Minnesota. Thomas Tinkham and I. Fay Nosow of Dorsey &

Whitney appeared as counsel for the plaintiff, and Harold D. Field, Jr. and Nancy C. Dreher of Leonard, Street & Deinard appeared as counsel for the defendant.

Upon the pleadings, evidence and verdict of the jury, the Court makes the following:

FINDINGS OF FACT

1. The plaintiff, Regents of the University of Minnesota, and defendant, Medical Incorporated, entered into a License Agreement on October 19, 1971 and an Amendment thereto on November 20, 1975.

2. By those agreements, the defendant obligated itself to pay to the plaintiff royalties for the heart valves manufactured and sold by the defendant,

whether or not they were covered by a particular patent.

3. The University is the owner of U.S. Patent No. 3,476,143, on a pivoting disc heart valve invented by Robert L. Kaster.

4. The defendant, as the assignee of M. Conrad Huffstutler, et al., applied for, obtained, and owns U.S. Patent No. 4,240,161, which was issued on December 23, 1980.

5. The Huffstutler patent was an improvement invention within paragraph 8 of the License Agreement of the parties.

6. The defendant assigned to the plaintiff the patent application on an invention of Francis W. Child, which was issued as Patent No. 3,737,919 on June 12, 1973, and the plaintiff is the owner of that patent.

7. The plaintiff and defendant were co-plaintiffs in a separate lawsuit charging Shiley Laboratories with infringement of the Kaster '143 patent, which proceedings were captioned: Washington Scientific Industries, Inc., et al. vs. Shiley Laboratories, Inc., 187 U.S.P.Q. 236 (C.D. Cal. 1975), the judgment in which held the Kaster '143 patent to be valid but not infringed by the Bjork-Shiley heart valve.

8. Medical manufactures and sells heart valves of two configurations: the Lillehei-Kaster heart valve and the Omniscience/Omnicarbon heart valve.

9. Claim 1 of the Kaster '143 patent covers the Lillehei-Kaster and the Omniscience/Omnicarbon heart valves manufactured by the defendant.

10. The Lillehei-Kaster and Omniscience/Omnicarbon heart valves are

covered by Claim 11 or 17 of the Kaster '143 patent.

11. The Lillehei-Kaster and the Omniscience/Omnicarbon heart valves are covered by one or more claims of the Child '919 patent.

12. Francis Child did not himself invent the subject matter described in the claims of the Child '919 patent.

13. The subject matter described in the claims of the Child '919 patent was obvious to one skilled in the art when the invention was made.

14. The net amount of royalties due at the 5% rate is as follows:

Lillehei-Kaster	$1,303,624.00
Omniscience/Omnicarbon	2,018,148.00
subtotal	$3,321,772.00
less prepaid royalties	- 378,745.34
Total (including interest)	$2,943,026.66

15. The University and Medical did not enter into an agreement which obligated the University to either not commence or not continue a lawsuit to enforce its royalty claims until after it had given consideration to a patent coverage opinion while it remained a holder of the Medical stock given to it.

From the foregoing, the Court makes the following:

CONCLUSIONS OF LAW

1. The License Agreement and the Amendment thereto of the parties are valid and enforceable.

2. The Kaster '143 patent is valid and enforceable.

3. The Child '919 patent is not valid.

4. The invention disclosed in the Huffstutler patent, as an improvement

invention within the meaning of paragraph 8 of the License Agreement, should be assigned by the defendant to the plaintiff.

5. The defendant ought to be required to pay royalties on both the Lillehei-Kaster and the Omniscience/ Omnicarbon heart valves, regardless of patent coverage.

6. The defendant ought to pay royalties at the rate of five percent (5%) on improvement inventions assigned to it under paragraph 8 of the License Agreement.

7. Claims 1, 11 and 17 of the Kaster '143 patent cover both the Lillehei-Kaster and the Omniscience/ Omnicarbon heart valves.

8. The plaintiff is entitled to royalties from the defendant under the License Agreement and its Amendment

until the expiration of the Huffstutler Patent.

ORDER FOR JUDGMENT

IT IS ACCORDINGLY HEREBY ORDERED, AFTER A 30-DAY STAY:

1. Defendant shall pay to the plaintiff Regents of the University of Minnesota as royalties and interest due through July 31, 1984, the sum of $2,943,026.66.

2. The defendant Medical shall make written royalty reports to the University within 60 days after the 31st days of January and July annually, commencing January 1985, and continuing through December 22, 1997, the final report being due within 60 days of this latter date. The written reports shall state the number, description and sales price of all heart valves manufactured

and sold or otherwise disposed of or distributed by the defendant during the preceding six-month period.

3. At the same time that the above required royalty reports are made, Medical shall pay to the University royalties on the valves manufactured and sold by Medical, its subsidiaries or distributors, which have the same general configuration as the current Lillehei-Kaster and Omniscience/Omnicarbon valves, except that no royalties shall be paid on sales of valves to the Government of the United States or any of its agencies for governmental purposes. The royalties shall be payable in an amount equal to five percent (5%) of the retail sales price charged by Medical, its subsidiaries or distributors to the using surgeon or hospital, less those allowances,

discounts, taxes and duties deductible under paragraph 3 of the License Agreement.

4. Defendant shall assign to the plaintiff its entire right, title and interest in and to U.S. Patent No. 4,240,161.

5. The counterclaims of the defendant, except that challenging the validity of U.S. Patent No. 3,737,919, are dismissed.

6. U.S. Patent No. 3,737,919 is declared invalid.

7. The plaintiff is entitled to recover from the defendant its costs and disbursements necessarily incurred herein.

Dated this 4th Day of December, 1984.

BY THE COURT:

/s/ Jack A. Mitchell
Jack A. Mitchell
Judge of District Court

A-11

STATE OF MINNESOTA

IN COURT OF APPEALS

C7-85-418

Dakota County — Lansing, Judge

The Regents of the University of Minnesota,

Respondent,

Thomas W. Tinkham
I. Fay Nosow
Dorsey & Whitney
2200 First Bank Place East
Minneapolis, Minnesota 55402

vs.

Medical Incorporated

Appellant.

Harold D. Field, Jr.
Nancy C. Dreher
David L. Lillehaug
Leonard, Street and Deinard
Suite 1500
100 South Fifth Street
Minneapolis, Minnesota 55402

Charles A. Bassford, Jr.
Baker & Bassford, P.A.
405 Edina Executive Plaza
5200 Willson Road
Edina, Minnesota 55424

Filed February 11,
1986
Wayne Tschimperle,
Clerk
Minnesota Appellate
Courts

S Y L L A B U S

1. The trial court properly refused to give collateral estoppel effect to a prior ajudication when the party attempting to invoke the defense failed to prove that the language upon which it relied was necessary to the prior adjudication and failed to demonstrate identity of issues between the two suits.

2. The trial court did not abuse its discretion in ruling inadmissible findings of the prior adjudication, the original complaint in the present action, and a letter written by a patent attorney to the University's patent administrator.

3. The trial court's finding that the total sales royalty provision was not conditioned is not clearly erroneous.

4. The trial court erred in failing to make any findings on whether the assignment of the improvement patent substantially extended the claims of the licensed patent.

5. A construction of the patent license's duration to require payment of royalties on a product covered by an expired patent would constitute patent misuse. The trial court improperly construed the duration of the license agreement to extend to the expiration of the improvement patent.

6. The trial court erred in denying respondent prejudgment interest for the period running from the date of

the last royalty report to the date the verdict was returned.

7. Denial of respondent's motion for attorney's fees was not an abuse of discretion.

Affirmed in part, reversed in part, and remanded.

Heard, considered and decided by Forsberg, Presiding Judge, Lansing, Judge, and Nierengarten, Judge.

O P I N I O N

LANSING, Judge

The University of Minnesota brought this action for royalties and specific performance against Medical Incorporated, its licensee under a patent licensing agreement. The jury found the University was entitled to the royalties and also made findings from which the trial court granted specific perfor-

mance. Medical claims the trial court committed a number of errors requiring either an amended judgment or a new trial. The University seeks review of the trial court's denial of its motion for attorney's fees and its denial of prejudgment interest for the period from October 1, 1984, through November 30, 1984. We affirm in part, reverse in part, and remand.

FACTS

In 1966 Robert Kaster, a University employee, invented a heart valve. The University, as assignee of Kaster's invention, applied for a patent on the valve in 1967. U.S. Patent No. 3,476,143 (the "Kaster patent") was issued to the University in November 1969.

In 1967 the University granted a license to manufacture heart valves to Washington Scientific Industries (WSI). WSI, with Kaster's assistance, developed the Lillehei-Kaster (L-K) heart valve, a clinically and commercially acceptable version of the Kaster patent. In 1971 WSI sold its heart valve business to Marshall Kriesel, who formed Medical Incorporated soon thereafter.

An agreement was negotiated between Medical and the University, licensing the right to make and sell heart valves in accordance with the Kaster patent. The license required a royalty for "each and every heart valve unit" made, calculated at five (5) percent of the retail sales price of the valve. The parties also agreed that the University would license any improvement inventions "cov-

ered by the claims" of the Kaster patent to Medical, and Medical would assign to the University any "improvements" to the Kaster patent it developed. The license was to be exclusive in the United States and Possessions for five years. Finally, the license required Medical to become a party to and pay all costs of a lawsuit which had been brought in 1970 by WSI and the University against Shiley Laboratories, Inc., for alleged infringement of the Kaster patent by one of Shiley's heart valves, the Bjork-Shiley valve. In return for its prosecution of the case, Medical's litigation costs were to be treated as prepaid royalties.

After a 13-day trial in 1974, the United States District Court for the Central District of California held that the Kaster patent was valid but not

infringed by the Bjork-Shiley valve. See Washington Scientific Industries, Inc. v. Shiley Laboratories, Inc., 187 U.S.P.Q. 236 (1975). The court's opinion implied that the Kaster patent did not accurately describe the L-K valve. Id. at 242. On the advice of their attorneys, the University and Medical chose not to appeal the decision. A settlement was reached with Shiley, and the decision became final.

Between July and November 1975, the University and Medical met several times to discuss the prepaid royalties Medical had accrued while funding the Shiley litigation. For the first time, Marshall Kriesel, the president of Medical, objected to paying royalties on the L-K valve, arguing that after the Shiley decision, it was questionable whether the Kaster patent covered the

L-K valve. Kriesel was, however, willing to pay royalties on a new all-carbon valve Medical had under development, which he believed was covered by the "Child patent," which Medical had assigned to the University as an improvement patent under the licensing agreement.

The University took the position that the Shiley litigation had not decided whether the L-K valve was covered by the Kaster patent, but that in any event, Medical had agreed to pay a royalty on each and every valve it made.

An amendment to the license agreement was signed in November 1975. Under its terms, Medical agreed to resume payments of royalties under the license agreement on the L-K valve and on Medical's pending all-carbon heart valve. The University extended the

exclusivity of the license on the all-carbon heart valve for an additional five years and extended the foreign exclusivity of the license until "the last of the licensed patents to expire." Further, the University waived royalties under the license for the period of August 1974 through October 1975 and paid Medical $100,000 as reimbursement for its costs in another lawsuit involving the Kaster patent.

Medical was to begin reporting royalties every six months beginning at the end of March 1976, with the first royalty payment due by March 31, 1977. No reports were ever submitted. The University asked Medical to make royalty reports and pay royalties. Medical's response was that the University would receive the reports when its audits were completed. In late 1980, after its pat-

ent experts had examined the Shiley decision and rendered opinions, Medical informed the University that it would not pay royalties because it did not believe any of the valves it manufactured were covered by the Kaster patent. The University commenced this suit for royalties and for specific performance in November 1981.[1] A seven-week jury trial was held.

At trial the University advanced two arguments. It first asserted that the claims of the Kaster patent covered all heart valves manufactured by Medical (the L-K and the recently developed Omniscience (OS) and Omnicarbon (OC))

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[1] Suit was brought in state court because litigation based on a license or royalty agreement seeking specific performance or damages for breach of contract does not "arise" under the patent laws; federal courts have no jurisdiction absent diversity of citizenship. 28 U.S.C, § 1338; Wilson v. Sandford, 51 U.S. 99 (1850)).

and that Medical's Huffstutler patent (which was a patent Medical had recently obtained on its OS valve) fell within the scope of the Kaster patent. The University argued alternatively that the scope of the Kaster patent was irrelevant because the license agreement required Medical to pay royalties on "each and every heart valve" even if the Kaster patent were found not to cover the L-K valve or the OS/OC valves. The University also claimed the Huffstutler patent had to be assigned to it as an improvement invention under the license. Medical's position at trial on the coverage issue was that after Shiley, the scope of the Kaster patent was narrow and could not be construed to cover either the L-K valve or the OS/OC valves. Therefore, Medical claimed, it was not obligated to pay any royalties

under the license because it had only agreed to pay royalties on valves covered by the Kaster patent.

In special interrogatories, the jury found: (1) all three of Medical's current artificial heart valve products, the L-K, the OS, and the OC, are covered by the Kaster patent; (2) in the license agreement or the amendment Medical agreed to pay royalties whether or not the valves were covered by a patent; (3) the Huffstutler patent is an improvement invention under the grant-back clause in the license agreement; and (4) Medical owes the University $2,943,026 in past-due royalties and interest. Based on this verdict, the trial court ordered Medical to pay past royalties, to assign the Huffstutler patent to the University, and to continue to pay royalties on all its heart valves until December

22, 1997, the date the Huffstutler patent expires.

Medical appeals from the trial court's order denying its motion for a new trial, or alternatively for judgment notwithstanding the verdict, and from the judgment. The University filed a notice of review contesting the trial court's failure to award it attorney's fees and disputing the award of prejudgment interest.

ISSUES

1. Did the trial court properly refuse to give the Shiley decision collateral estoppel effect?

2. Did the trial court err prejudicially in refusing to admit into evidence:

   a. The Shiley decision?

b. The University's original complaint?

c. A letter written by one of the University's patent attorneys?

3. Does the jury's determination together with the trial court's construction of the license agreement and amendment constitute patent misuse by the University?

4. Did the trial court err in denying the University prejudgment interest for the period from October 1, 1984, through November 30, 1984?

5. Did the trial court abuse its discretion in failing to award the University attorney's fees?

ANALYSIS

I

Collateral Estoppel

Medical contends the trial court erred in failing to give collateral estoppel effect to the Shiley decision and asserts the University is bound by the Shiley court's findings and conclusions on the scope of the Kaster patent. Specifically, Medical asserts that Shiley found the Kaster patent valid but limited in scope to a valve with no backflow in the closed position and a fixed axis of rotation for the disc. Medical requested jury instructions based on this interpretation of Shiley and language from the opinion characterizing the Kaster patent as an improvement through details of construction, rather than a change in basic concepts in heart valve technology. The

trial court refused Medical's requested jury instructions and refused to admit the Shiley decision on the issue of coverage, finding no identity of issues in the two cases.

Collateral estoppel precludes the relitigation of issues which are both identical to those issues already litigated by the parties in a prior action and necessary and essential to the resulting judgment. Ellis v. Minneapolis Commission on Civil Rights, 319 N.W.2d 702, 704 (Minn. 1982); A. B. Dick Co. v. Burroughs Corp., 713 F.2d 700, 702 (Fed. Cir. 1983) cert. denied 464 U.S. 1042 (1984). Whether collateral estoppel is available is a mixed question of law and fact subject to de novo review; once it is determined that collateral estoppel is available, the decision to apply the doctrine is left to the trial court's

discretion. United States v. Geophysical Corp., 732 F.2d 693, 697 (9th Cir. 1984).

While more frequently applied to prior findings of patent invalidity, see Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation, 402 U.S. 313 (1971), preclusive effect may also be given to prior findings on the scope of a patent because determinations of infringement and validity both involve claim interpretation. Overhead Door Corp. v. Whiting Roll-up Door Manufacturing Corp., 215 U.S.P.Q. 428, 433 (W.D.N.Y. 1981) (citing Iron Ore Co. of Canada v. Dow Chemical Co., 177 U.S.P.Q. 34, 59 (D. Utah 1972)).

The application of collateral estoppel turns on a determination of what was essentially decided in the Shiley litigation. In finding the pat-

ent valid, the Shiley court compared the Bjork-Shiley valve with the claims of the Kaster patent in suit. The court identified in its findings four significant ways in which the claims of the Kaster patent failed to define the Bjork-Shiley valve: (1) the Bjork-Shiley valve did not have an "annular uninterrupted peripheral portion;" (2) the Bjork-Shiley valve did not block the reverse flow; (3) the Bjork-Shiley valve had a wobble or rocking open/close motion rather than a pivot; and (4) most significantly, the Bjork-Shiley valve did not have a first or second pair of legs and no elements corresponding to legs in structure or function.

In its conclusion the court stated:

> I. The limitations in the broadest claims which were required by the Patent Office as a condition of obtaining a patent are binding upon plaintiffs and plaintiffs are

> not now free to claim any pivoting disc valve but only pivoting disc valves which include each of the components of the limitation introduced during prosecution; e.g., the two pairs of legs which are structured and which cooperate with the peripheral portion and with each other in the manner and relation defined in the claims * * *. Since the evidence clearly shows that the structure and the operating relationship of the support rods with the disc in the accused devices is different in principle from the legs and peripheral portion relationship defined in the limitations introduced into the claims to obtain allowance, the only manner in which infringement could be found would be to ignore these limitations and this is not permitted.

187 U.S.P.Q. at 243 (emphasis added). The limitations Shiley read into the claims of the Kaster patent that were essential to its judgment of non-infringement involved the relationship between the legs and the "annular uninterrupted peripheral portion" features.

The court's findings on the two features on which Medical would base collateral estoppel--the backflow and fixed axis features--are not essential to the court's conclusion of law and judgment.

The doctrine of collateral estoppel is generally beneficial in patent claims because the litigation is lengthy, costly and complex. However, the burden of proof is on the party invoking the defense. Virsen v. Rosso, Beutel, Johnson, Rosso & Ebersold, 356 N.W.2d 333, 337 (Minn. Ct. App. 1984). Minnesota courts have traditionally required a strong showing that the requisites of the doctrine have been met:

> The defense of res judicata through estoppel by verdict [collateral estoppel] is to be allowed with caution, and it must rest upon a more solid basis than mere speculation as to what was actually adjudicated in the prior action.
>
> * * *

> There can be no estoppel where there is a reasonable doubt as to whether a fact was actually adjudicated.

Id. (quoting Wolfson v. Northern States Management Co., 221 Minn. 474, 479, 22 N.W.2d 545, 548 (1946)). Medical failed to show that the language from the Shiley opinion regarding the scope of the Kaster patent was necessary to the prior adjudication.

Medical also argues it is entitled to collateral estoppel because the valves it manufactures differ from the Kaster patent in the same way as the Bjork-Shiley valve. See, e.g., Overhead Door, 217 U.S.P.Q. at 433. The parties stipulated that Medical's valves have controlled peripheral backflow in the closed position and a shift in the axis of rotation upon opening and closing of the disc. However, Medical did not establish the identity of issues on the

remaining two features which were necessary to the trial court's decision. Our examination of the record fails to persuade us that the trial court erred in refusing to apply collateral estoppel.[2]

II

Evidentiary Rulings

Evidentiary rulings on materiality, foundation, remoteness, relevancy, or the cumulative nature of evidence are committed to the sound discretion of the trial judge and will only be the basis for reversal where that discretion has been clearly abused. Jenson v. Touche

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[2] We also note that Medical and the University were co-plaintiffs in the Shiley case. Collateral estoppel is generally applied only to those issues actually litigated fully and fairly as adversaries. See Restatement (Second) of Judgments §38 (1982). This issue was not raised or argued by the parties.

Ross & Co., 335 N.W.2d 720, 725 (Minn. 1983). Moreover, "before an error in the exclusion of evidence may be grounds for a new trial, it must appear that such evidence might reasonably have changed the result of the trial if it had been admitted." Id. (citing Poppenhagen v. Sornsin Construction Co., 300 Minn. 73, 79-80, 220 N.W.2d 281, 286 (1974)).

a. Exclusion of Shiley Opinion

Medical contends the trial court erred when it ruled the Shiley opinion inadmissible on the coverage issue. If neither collateral estoppel nor res judicata applies, previous judgments are regarded as hearsay and are not within an exception to the hearsay rule. McCormick on Evidence §318, at 884 n.4 (E. Cleary 3d ed. 1984) (citing 5 Wigmore, Evidence §1671a (Chadbourn rev. 1974)); see also Zenith Radio Corp. v.

Matsushita Electric Industrial Co., 505 F. Supp. 1125, 1184-86 (E.D. Pa. 1980) (judicial findings not admissible under public records exception), aff'd in part, rev'd and remanded in part on other grounds sub nom. In re Japanese Electronic Products Antitrust Litigation, 723 F.2d 238, 275 (3d Cir. 1983). The process for determining trustworthiness as required under rules 803 and 804 is unsuited to evaluating judicial opinions because rule 605 makes the judge incompetent as a witness. Zenith Radio, 505 F. Supp. at 1185.

In this case the trial court excluded the Shiley opinion because its slight relevance was outweighed by the danger of undue prejudice and jury confusion. See Minn. R. Evid. 403; In re Commodore Hotel Fire & Explosion Cases, 324 N.W.2d 245, 249 (Minn. 1982); Lines

v. Ryan, 272 N.W.2d 896, 902 (Minn. 1978). The court reasoned that the jury would be likely to give undue weight to findings issued by a judge.

Medical asserts that it needed the decision to respond to the University's "strenuous attack" on the credibility of testimony by Medical's witnesses on contract negotiation. The University argued that Medical changed its position on the coverage of the Kaster patent because of the Shiley opinion, and Medical argues the jury should have had the opinion to evaluate Medical's explanations. The trial court permitted limited testimony on the outcome of Shiley "to accurately present the contract background from which the parties acted, and the views of some witnesses (right or wrong) of the meaning of Shiley." We fail to see any prejudice to Medical.

Medical next contends the Shiley decision was relevant because it supported the opinions of Medical's experts that the Kaster patent had a narrow scope. James Brunton, Medical's independent expert, was not allowed to testify that the Shiley decision was "strong confirmation" of his own opinion on the scope of the Kaster patent. Brunton was, however, allowed to render an opinion independent of Shiley that Medical's valves are not covered by the Kaster patent.

Rule 703 of the Rules of Evidence does not require that otherwise inadmissible evidence must be admitted as substantive evidence merely because it forms the basis of an expert's opinion. See P. Thompson, 11 Minnesota Practice: Evidence §703.01, at 293 (1979). Even if Shiley were admissible

for the limited purpose of explaining the expert's opinion, we cannot say that the trial court prejudicially erred in determining that the opinion's prejudicial and confusing nature outweighed its probative value.

Medical also contends that the Shiley decision was necessary to cross-examine and impeach the University's expert witnesses, who testified that they had not read Shiley or considered it in reaching their conclusion that the Kaster patent had a broad scope. Medical argues that because its experts considered Shiley reliable, the University's experts could have been impeached on their failure to consider portions of the opinion. The trial court's evidentiary ruling allowing inquiry into whether they had read Shiley substantially satisfies Medical's desire to

impeach the University's experts on this basis.

b. Exclusion of Original Complaint

Medical contends that the trial court erred prejudicially in refusing to admit into evidence paragraph 5 of the University's original complaint, which states:

> Defendant, in its Private Placement Memorandum dated February 21, 1981, asserted that it had sold approximately 70,000 units of the Lillehei-Kaster Valve, the licensed product.

(Emphasis added). The complaint was subsequently amended to read "a licensed product" (emphasis added). Medical asserts that the use of the singular "the" reflects a concession by the University that the L-K valve was the only licensed product, rather than one of several licensed valves. The trial court concluded that the complaint could

not be regarded as either a factual admission or a prior inconsistent statement. We agree that this was not clearly an admission; even if it is an inconsistent statement, we fail to see how its exclusion prejudiced Medical.

c. Exclusion of the Letter

Medical claims that the trial court erred in refusing to admit into evidence exhibit 207, a letter dated February 1969 from Richard Bartz, the patent attorney who prosecuted the Kaster patent application, to G. Willard Fornell, the University's Patent Administrator at the time. Exhibit 207 was the subject of considerable controversy during the Shiley trial. In the letter, Bartz explained a recent improvement to the L-K valve. He said the specific structure could not be claimed under the existing patent, but that it was broadly

included in the amended claim and a new claim. Medical argues that this letter is an admission that the University's own patent attorney believed that the Kaster patent was narrow in scope and that it did not cover valves with backflow.

Medical first attempted to introduce the letter during cross-examination of Fornell. The University's objection that the letter lacked foundation and was not relevant to this action was apparently sustained by the trial court, although the in-chambers discussion is not included in the record. Medical later attempted to introduce the letter to impeach Kaster. The University argues that the letter could not be properly admitted to impeach Kaster's testimony because Medical failed to lay the necessary foundation under Minn. R.

Evid. 901; Kaster denied ever having received the letter, and Medical did not attempt to lay the proper foundation either through Bartz (whom Medical identified as a witness but did not call), or through Fornell.

Medical also argues the letter represents a party admission, requiring no foundation. At the time the exhibit was offered, Medical made no attempt to show it constituted a party admission. Even if this letter can be considered an admission on the part of the University, its exclusion did not prejudicially affect the outcome of the trial. Ample evidence at trial supported the jury's determination that Medical's valves were covered by the Kaster patent.

III

Patent Misuse

Medical claims that the license agreement between the parties constitutes patent misuse that renders the Kaster patent unenforceable. Medical bases its argument on three provisions of the license agreement: (1) the "total sales" provision; (2) the grant-back clause; and (3) the payment of royalties on heart valves beyond the expiration of the Kaster patent.

Patent misuse is an affirmative defense, and the party asserting it has the burden of proof. Bio-Rad Laboratories, Inc. v. Nicolet Instrument Corp. 739 F.2d 604, 615 (Fed. Cir. 1984), cert. denied, ____ U.S. ____, 105 S.Ct. 516 (1984). The misuse issue was raised in the pleadings and argued at trial, but Medical did not request a special

interrogatory on this issue. Minn. R. Civ. P. 49.01(1) provides that a party waives a right to a trial by jury if a factual issue is omitted from special interrogatories; the court may make a finding regarding the omitted issue or, if it fails to make a finding, will be presumed to have made a finding in accord with the judgment on the special verdict. See Herr & Haydock, 2 Minnesota Practice §49.15, at 436 (1985). The trial court made no findings, so we must imply findings consistent with the verdict.

[1] a. The Total Sales Provision

Paragraph three of the original license agreement provides that "Medical agrees to pay to Minnesota for each and every heart valve unit made and sold by Medical a production royalty equal to 5% of the retail sales price * * *." The

1975 amendment to the agreement provides that Medical would resume payment on both the L-K and "its pending all-carbon heart valve * * * in accordance with the terms of the Agreement." The jury found that the license agreement and its amendment obligated Medical to pay royalties on both the L-K valve and the OS/OC valves regardless of whether they were covered by the Kaster patent.

Conditioning the grant of a patent license upon payment of royalties on products that do not use the teaching of the patent constitutes patent misuse. Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 135 (1969). "Conditioning" consists of "a patentee's insistence on a percentage-of-sales royalty, regardless of use, and his rejection of licensee proposals to pay only for actual use." Id. at 139.

Whether or not "conditioning" exists is a question of fact. See Glen Manufacturing, Inc. v. Perfect Fit Industries, Inc., 420 F.2d 319 (2nd Cir. 1970), cert. denied, 397 U.S. 1042 (1970).

In order to find conditioning under a "total sales" provision, a patent licensor must have (1) insisted upon or demanded the payment of royalties on merchandise which the licensor clearly knew did "not employ * * * the discovery which the claims of the patent define," Zenith, 100 (sic) U.S. at 140, and (2) rejected "licensee proposals to pay only for actual use." Id. at 139; see also Chandler v. Stern Dental Laboratory Co., 335 F.Supp. 580, 583 (S.D. Tex. 1971) (licensor sought royalties on products which, by its own admission, did not come within scope of patent; held to be misuse).

The jury found that the valves were covered by the Kaster patent, and Medical does not dispute the sufficiency of the evidence to support this finding. No patent misuse can exist when the total sales provision requires royalties only from covered products. Even before trial it is clear that neither party was entirely certain whether the Kaster patent covered the L-K valve. The record also indicates that, far from being "conditioned," this total sales provision was the result of considerable bargaining by the parties over a number of terms in the agreement.[3] Given this record, we conclude that the trial court

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[3] The 1975 negotiations were the only plausible time during which the University could have "conditioned" the license upon payment of royalties on uncovered products. In 1971, which was pre-Shiley, it seems clear everyone believed Kaster covered the L-K valve.

did not clearly err in impliedly finding that the license was not "conditioned" upon payment of royalties on products not covered by the Kaster patent.

b. The Grant-back Clause

The license agreement requires Medical to assign to the University any improvements to the Kaster patent developed by Medical. The inclusion in a patent license of a provision requiring the licensee to assign improvement patents is not per se illegal. Transparent-Wrap Machine Corp. v. Stokes & Smith Co., 329 U.S. 637 (1947). But if a grant-back provision is applied to substantially extend and enhance the scope of the monopoly in the licensed patent, then such application constitutes patent misuse. Duplan Corp. v. Deering Milliken, Inc. 444 F.Supp. 648, 700 (D.S.C. 1977), mod. on other

grounds, 594 F.2d 979 (4th Cir. 1979), cert. denied, 444 U.S. 1015 (1980).

The determination of substantial extension depends on technical comparison of the Huffstutler patent with the Kaster patent. We cannot extrapolate evidence from the special verdict or the record to support an implied finding on this issue. Such a technical comparison is peculiarly within the factfinder's province. We therefore remand this issue to the trial court, directing it to make specific findings and to specifically determine whether Medical met its burden of proving the assignment substantially extended the claims of the Kaster patent.

c. Payment of Royalties After Expiration of Kaster Patent

The trial court ordered Medical to pay royalties "on the valves manufac-

tured and sold by Medical * * * which have the same general configuration as the current [L-K] and Omniscience/Omnicarbon" valves until December 22, 1997, the date the Huffstutler patent expires. This construction appears to require Medical to pay royalties on L-K valves which are sold past the expiration date of the Kaster patent. The use of a royalty agreement that projects beyond the expiration date of all the licensed patents is unlawful per se. Brulotte v. Thys Co., 379 U.S. 29, 32 (1964).[4]

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[4] Since we do not agree that the Huffstutler patent becomes, by assignment, a "licensed patent" under the agreement, see infra, we do not address the University's argument that, through the assignment of an unexpired patent, the "package license" rule of Beckman Instruments, Inc. v. Technical Development Corp., 433 F.2d 55, 61 (7th Cir. 1970), cert. denied, 401 U.S. 976 (1971), applies to the license. See also Hull v. Brunswick Corp., 704 F.2d 1195, 1202 (10th Cir. 1983).

Neither party refers to any testimony in the record which would bear upon a construction of the duration of the license agreement, and the trial court's order does not provide us with either its rationale or the evidence it relied on in construing the duration of the license. The trial court apparently determined the duration of the license based solely upon its reading of the relevant provisions of the license. Because this evidence is documentary, we apply the appellate standard of review on documentary evidence stated in In Re Trust Known as Great Northern Iron Ore Properties, 308 Minn. 221, 243 N.W.2d 302 (1976), cert. denied, 429 U.S. 1001 (1976).

Paragraph 2 of the original license agreement provides that the license shall "extend for the life of the last

of the licensed patents to expire unless earlier terminated in accordance with the provisions hereof" (emphasis added). If the license is to continue in effect until the expiration of the Huffstutler patent, as the trial court determined, then the Huffstutler patent must somehow become a "licensed patent" under paragraph 2 to support the trial court's interpretation.

The license does not define the phrase "licensed patents." However, one of the opening clauses of the license defines "licensed inventions" and provides:

> WHEREAS, MINNESOTA is the owner of the entire right, title and interest in and to certain inventions, herein described and sometimes referred to as the "licensed inventions" relating to heart valves which are subjects of Letters Patent of the United States, Nos. 3,367,364 and 3,476,143 [Kaster] and for Letters Patent of Canada,

> Serial No. 943,287, and upon which other patent applications have been and may be filed; * * *.

We think it fair to equate the undefined phrase "licensed patents" with the defined phrase "licensed inventions." Paragraph 2 speaks of "licensed patents," and not "licensed inventions," presumably because inventions do not expire but patents do.

Careful analysis of the whereas clause discloses that in order to be a "licensed invention," the "entire right, title and interest to the invention relating to heart valves" had to be owned by the University at the time of the original license. This means that only inventions owned by the University in 1971, when the agreement was signed, can be "licensed inventions" under the clause. The Huffstutler patent did not exist in 1971, nor did the devices it

describes. There is no explicit language indicating that assigned "improvement inventions" upon being patented were to be considered "licensed patents" under paragraph 2. Therefore, the Huffstutler patent, an improvement invention, is not a licensed patent within the meaning of paragraph 2.

The trial court's improper construction of the license created the patent misuse issue addressed above. We hold that the license agreement terminates upon the expiration of the Kaster patent. Properly construed, this portion of the license agreement does not constitute patent misuse.

IV

The University cross-appeals the trial court's denial of prejudgment interest for the period from October 1,

1984, through November 30, 1984, the date the verdict was returned. Royalties calculated by the jury included prejudgment interest at the statutory rate of 6 percent through September 30, 1984, the date upon which the last royalty payment was due before trial.

In denying the University interest from the date upon which the last royalty payment was due until the verdict was rendered, the trial court incorrectly relied upon Johnson v. Moberg, 354 N.W.2d 613, 615 (Minn. Ct. App. 1984), pet. for review denied, (Minn. Feb. 19, 1985), for the proposition that prejudgment interest is not recoverable until "final judicial decision on * * * liability * * * occurr[ed]." Johnson was a personal injury case in which the supreme court ordered a new trial on liability, but left intact the damages

award from the first trial in 1981. This court disallowed prejudgment interest on the 1981 verdict because the tortfeasors' liability was not ascertainable. Id.

A recent amendment to Minn. Stat. §549.09, subd. 1 (1984), allows prejudgment interest in most cases. See 1984 Minn. Laws ch. 399, §1 (effective July 1, 1984). Medical contends the University is not entitled to prejudgment interest because this cause of action was pending before the effective date of the statute. This argument is meritless. Minnesota law has always allowed prejudgment interest on a final judgment when the damages claim is liquidated or, if unliquidated, "where the damages were readily ascertainable by computation or reference to generally recognized standards such as market value and not

where the amount of damages depended upon contingencies or upon jury discretion (as in actions for personal injury of injury to reputation)." Summit Court, Inc. v. Northern States Power Co., 354 N.W.2d 13, 16 (Minn. 1984) (quoting Potter v. Hartzell Propeller, Inc., 291 Minn. 513, 518, 189 N.W.2d 499, 504 (1971)). Thus, the trial court's award of prejudgment interest for the period up to July 1, 1984 is affirmed.

As to the period from July 1, 1984, to the date the verdict was returned, the University is entitled to interest under §549.09, subd. 1(c). See L.P. Medical Specialists, Ltd. v. St. Louis County, _____ N.W.2d _____, _____ (Minn. Ct. App. Dec. 10, 1985). The trial court's denial of prejudgment interest

from October 1, 1984, through November 30, 1984, is reversed.

V

The University appeals the trial court's denial of its motion for attorney's fees. Minn. Stat. §549.21 authorizes an award of attorney's fees where the unsuccessful party acted in bad faith, vexatiously, or for oppressive reasons. Nelson v. Engen, 347 N.W.2d 57 (Minn. Ct. App. 1984). A trial court's refusal to award fees will not be reversed absent an abuse of discretion. See National Recruiters, Inc. v. Toro Co., 343 N.W.2d 704 (Minn. Ct. App. 1984). The record supports the trial court's conclusion that Medical's position was not frivolous, interposed for mere purposes of delay or devoid of merit.

D E C I S I O N

The trial court properly refused to give collateral estoppel effect to a prior adjudication of the scope of the Kaster patent.

The trial court's evidentiary rulings were not erroneous.

The evidence supports a finding that the total sales royalty provision does not amount to patent misuse; however, findings must be made as to whether the assignment of the Huffstutler patent substantially extends the claims of the Kaster patent. The license agreement terminates on the date the Kaster patent expires.

The trial court erred in denying the University prejudgment interest for the period from October 1, 1984, through November 30, 1984.

The trial court's denial of the University's motion for attorney's fees was well within its discretion.

Affirmed in part, reversed in part, and remanded.

STATE OF MINNESOTA

IN SUPREME COURT

C7-85-418

The Regents of the University of Minnesota,

Respondent,

vs.

Medical Incorporated,

Appellant.

O R D E R

Based upon all the files, records and proceedings herein, IT IS HEREBY ORDERED that the petition of Medical Incorporated for further review be, and the same is, denied.

IT IS FURTHER ORDERED that the conditional petition of The Regents of the University of Minnesota for further review, be and the same is, denied.

Dated: April 18, 1986.

BY THE COURT

/s/ Douglas A. Amdahl
Chief Justice

STATE OF MINNESOTA

IN COURT OF APPEALS

C7-85-418

The Regents of the
University of Minnesota,

Respondent,

vs. O R D E R

Medical Incorporated,

Appellant.

Considered and decided by Popovich, Chief J., Wozniak, J. and Crippen, J.

Based upon the file, records and proceedings herein, and because:

1. Appellant seeks a stay of proceedings in the trial court pursuant to this court's April 18 opinion because it "intends to petition for a writ of certiorari to (sic) the United States Supreme Court"; and

2. To obtain a stay, appellant must establish the balance of equities favors a stay and the risk of irreparable injury weighs more heavily upon appellant, Buchanan v. Evans, 439 U.S. 1360 (1978) (citations omitted); and

3. If the equities favor a stay, appellant must establish the Supreme Court is likely to grant certiorari, Id.; and

4. Appellant does not argue denial of a stay will result in irreparable injury and respondent opposes the stay;

IT IS HEREBY ORDERED:

1. Appellant's motion for a stay pending decision on a petition for certiorari by the Supreme Court is denied.

2. The Clerk of the Appellate Courts shall immediately enter judgment on this court's April 18 opinion.

Dated: 5-21-86

BY THE COURT

/s/ Peter S. Popovich
Chief Judge

CLL:mbs

STATE OF MINNESOTA ___ Supreme Court

_X_ Court of Appeals

The Regents of the
University of Minnesota, C7-85-418
Appellate Court
Respondent, Case Number

vs 94170
Trial Court
Medical Incorporated, Case Number

Appelalnt.[sic]

Pursuant to an order of Court heretofore duly made and entered in this cause it is determined and adjudged that the order of the Court below, herein appealed from, to wit, of the District

Court within and for the County of Dakota be and the same hereby is Affirmed in part, reversed in part, and remandedand that judgment be entered accordingly. A certified copy of the entry of judgment and the Court's decision is herein transmitted and made part of the remittitur.

Dated and signed: FOR THE COURT

May 22, 1986 Attest: Wayne Tschimperle

Clerk of the Appellate

Courts

By: _____

Deputy/Assistant Clerk